

**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
Whether there has been a violation
of the Securities Act of Washington by:

STEVEN BAKER VALENTINE and CSS
FUNDING INC.

Respondents

SDO - 94 – 00 (A)

SUMMARY ORDER TO CEASE
AND DESIST

Case No. 99-11-371

THE STATE OF WASHINGTON TO: STEVEN BAKER VALENTINE

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Steven Baker Valentine and CSS Funding Inc., have each violated the Securities Act of Washington and that their violations justify the entry of an order by the Securities Administrator under RCW 21.20.390 to cease and desist from such violations. The Securities Administrator finds that delay in ordering the Respondents to cease and desist from such violations would be hazardous to investors and to the public, and that a Summary Order to Cease and Desist should be entered immediately. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I. Respondents

1. CSS Funding Inc. ("CSS Funding") is a for-profit Washington corporation that has its principal place of business at 833 Monte-Elma Road in Satsop, Washington. CSS Funding is in the business of purchasing car contracts at a discount from Washington car dealers and collecting the contract payments. CSS Funding was incorporated by Steven Baker Valentine on March 16, 1993.

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2. Steven Baker Valentine (“Valentine”) resides in Satsop, Washington. Valentine is the president and majority shareholder of CSS Funding.

II. Offer and Sale of Investments

From at least 1993 through 1999, Valentine and CSS Funding have offered and sold more than \$1.8 million worth of investments to at least 25 investors, many of whom are Washington residents. Several persons have invested their retirement funds with Valentine and have not been repaid as promised.

Valentine and CSS Funding told investors that their funds would be used to purchase car contracts at a discount and that their investments would be secured by the cars being financed. Investors were generally promised returns of approximately 15% to 18% annual interest on their investments. Most, if not all, of the investors received promissory notes signed by Valentine to evidence their investments. At least two investors also received the option to exchange their promissory notes for shares of stock in CSS Funding Inc., upon approval by the state of Washington of a SCOR offering (a Small Corporate Offering Registration). No SCOR or other registration application was ever filed by Valentine or CSS Funding in the state of Washington.

III. Misrepresentations and Omissions

Misrepresentations about Safety

While offering and selling investments, Valentine misrepresented the safety of the investments. Valentine promised that the investments would be 100% or more secured by collateral, but he failed to secure many of the investments. He gave some investors a diagram showing a “pyramid of safety.” The diagram falsely indicated that certificates of deposit and car notes had equivalent, low-level degrees of risk. Valentine also claimed that while the stock market might rise and fall, CSS Funding would remain the same, which was untrue given that car loans are inherently risky due to the mobility and depreciation of the loan collateral.

Misleading Advertisements

Valentine and CSS Funding offered investments through advertisements in classified advertising newspapers. Some of the advertisements promised that investors could earn a 16% “guaranteed yield” on secured investments, without explaining the source of the purported guarantee. It does not appear that there were ever any guarantees associated with the investments.

Issuance of Notes from an Unincorporated Entity

Valentine generally led investors to believe that they were investing in CSS Funding Inc. However, to evidence their investments, Valentine gave most of the investors promissory notes that were signed by Valentine as president of “CSS, Inc.” It does not appear that CSS, Inc. was ever incorporated by Valentine. At least one investor received an offering brochure from “CSS, Inc.” The brochure promised that a CSS, Inc. investment was “100% guaranteed not only by the car paper, but also the financial strength of our growing organization.” However, it does not appear that CSS, Inc. ever had any legal existence.

False Claims about CSS Funding’s Business History

Offering materials that Valentine distributed to investors falsely claimed that CSS Funding had been able to provide its clients with a high return “for over 10 years.” However, CSS Funding was only incorporated in 1993 and did not begin its business operations until that year.

Failure to Disclose Valentine’s Prior Business and Financial Background

Valentine failed to disclose his own business and financial background to investors. Valentine had been self-employed for a number of years. He operated several businesses prior to starting CSS Funding. Among other things, Valentine sold computer software through a Washington corporation called Computer Software Service, Inc., which was administratively dissolved on April 25, 1994. Valentine never disclosed his lack of background in the car business. Prior to starting CSS Funding, it appears that Valentine did not

1 have any background in the car business. Valentine also failed to disclose to investors that he had filed a
2 Chapter 7 personal bankruptcy petition in 1986.

3 Other Significant Undisclosed Information

4 Valentine and CSS Funding failed to give the investors financial statements for CSS Funding or
5 CSS, Inc., if it existed. They failed to disclose the delinquency and default rate on their car contracts. They
6 failed to disclose their underwriting standards for CSS loans, including the dealer screening process, the
7 lending guidelines and the required loan-to-value ratios. They failed to escrow the investor proceeds until
8 security interests in the cars being financed had been perfected in favor of the investors. They failed to give
9 the investors proof of insurance coverage for the cars that supposedly secured their investments.

10 **IV. Inability to Repay Investors**

11 Since October 1999, Valentine and CSS Funding have stopped making payments to most investors.
12 Both Valentine and CSS Funding are now involved in bankruptcy proceedings. Valentine filed for Chapter
13 13 bankruptcy in April, 2000 and CSS Funding filed for Chapter 7 bankruptcy in April, 2000.

14 **V. Valentine's Willful Disregard of Securities Registration Requirements**

15 Valentine was aware of securities registration requirements, but chose not to comply with those
16 requirements. By at least September 1997, Valentine was apprised of the SCOR offering requirements, yet
17 he continued to offer and sell stock, notes and investments without registering an offering of securities.

18 **VI. Failure to Register as a Securities Broker-Dealer or Salesperson**

19 Neither Valentine nor CSS Funding have ever been registered as a securities broker-dealer or
20 securities salesperson for offering or selling securities in the state of Washington.

21 **VII. Need for a Summary Order**

22 On September 21, 2000, Valentine's attorney informed the Securities Division by letter that
23 Valentine would not testify concerning the matters in this order. Based upon Valentine's refusal to testify,
24 his willful violations of the securities registration requirements and his false and misleading statements

25 SUMMARY ORDER TO CEASE AND
26 DESIST

1 about the investments described in this order, the Securities Administrator finds that a summary order to
2 cease and desist should be issued immediately against Valentine and CSS Funding.

3 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

4 **CONCLUSIONS OF LAW**

5 **I. Offer and Sale of Securities**

6 The offer and sale of the investments, as described in paragraphs II and III of the Tentative Findings
7 of Fact, constitute the offer and sale of a security, as defined in RCW 21.20.005(10) and (12), whether in the
8 form of notes, stock, investment contracts, investments of money in the risk capital of a venture, or
9 evidences of indebtedness.

10 **II. Violation of RCW 21.20.140, Securities Registration Provisions**

11 The offers and sales of said securities, as described in paragraphs II and III of the Tentative Findings
12 of Fact, by Respondents violated RCW 21.20.140 because the offer and sale of the securities were never
13 registered in Washington.

14 **III. Violation of RCW 21.20.040, Securities Broker-Dealer and Salesperson Registration Provisions**

15 The offers and sales of said securities, as described in paragraphs II through VI of the Tentative
16 Findings of Fact, by Respondents violated RCW 21.20.040 because neither Valentine nor CSS Funding
17 were ever registered as a securities broker-dealer or salesperson in the state of Washington.

18 **IV. Violation of RCW 21.20.010, Anti-Fraud Provisions**

19 The offers and/or sales of said securities, as described in paragraphs II through V of the Tentative
20 Findings of Fact, by Respondents violated RCW 21.20.010 because Respondents made untrue statements of
21 material facts or omitted to state material facts necessary in order to make their statements, in light of the
22 circumstances in which they were made, not misleading.
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Emergency

Based upon the foregoing, the Securities Administrator finds that an emergency exists and that Respondents' continued and willful violations of RCW 21.20.140, RCW 21.20.040 and RCW 21.20.010 constitute a threat to the investing public. The Securities Administrator finds that a summary order to cease and desist from those violations is in the public interest and is necessary for the protection of the investing public.

SUMMARY ORDER

Based upon the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED that Respondents, Steven Baker Valentine and CSS Funding Inc., and their agents, employees and representatives, shall each cease and desist from offering or selling securities in any manner in violation of RCW 21.20.140, the securities registration section of the Securities Act of Washington.

It is further SUMMARILY ORDERED that Respondents and their agents, employees and representatives shall each cease and desist from violation of RCW 21.20.040, the securities broker-dealer and salesperson registration section of the Securities Act of Washington.

It is further SUMMARILY ORDERED that Respondents and their agents, employees and representatives shall each cease and desist from violation of RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

AUTHORITY AND PROCEDURE

This Order is entered pursuant to the provisions of RCW 21.20.390 and is subject to the provisions of Chapter 34.05 RCW. Respondents may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order.

1 If a respondent fails to make a timely request for a hearing, the Securities Administrator intends to
2 adopt the above Tentative Findings of Fact and Conclusions of Law and make the Summary Order to Cease
3 and Desist permanent as to that Respondent.

4 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

5 DATED this 22nd day of September, 2000

7 

8 DEBORAH R. BORTNER
9 Securities Administrator

11 Approved by:

Presented by:

13 _____
14 Michael E. Stevenson
15 Chief of Enforcement

_____ Janet So
Securities Examiner